



**eDumbe Local Municipality (KZN 261)**  
**Trading as EDUMBE LOCAL MUNICIPALITY**  
**Annual Financial Statements**  
**for the year ended 30 June 2017**  
**Auditor's/Accountant's name**  
**Registered Auditors**

# EDUMBE LOCAL MUNICIPALITY

(Registration number KZN 261).

Trading as EDUMBE LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## General Information

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### Legal form of entity

Local Municipality

### Nature of business and principal activities

The main purposes of the municipality is to engage in local governance activities, which include planning and promotion of integrated development planning, economic and environmental development and provision of services to the community. The municipality provides services such as electricity services, refuse removal, public safety services.

### Mayoral committee

Executive Mayor

Cllr SJ Kunene

Cllr ST Hlatshwayo (Speaker)

Cllr ND Ndlangamandla (Deputy Mayor)

Cllr ND Sibiya (EXCO Member)

Cllr HH Vilakazi (MPAC Chair)

Cllr RC Gevers

Cllr JDvR Lourens

Cllr JB Mthethwa

Cllr MS Zulu

Cllr TB Shabalala

Cllr DF Sukazi

Cllr ND Mngomezulu

Cllr DD Maseko

Cllr MSE Mbokazi

Cllr DP Masondo

Cllr ZP Mtetwa

### Grading of local authority

3

### Chief Finance Officer (CFO)

Mr S Mngwengwe

### Accounting Officer

Mr RP Mnguni (Acting)

### Registered office

PRIVATE BAG X308

10 Hoog Street

PaulPietersburg

3180

### Business address

10 Hoog Street

PaulPietersburg

3180

3180

### Postal address

Private Bag X308

PaulPietersburg

3180

### Bankers

FIRST NATIONAL BANK

### Auditors

Auditor-General of South Africa

Registered Auditors

# **EDUMBE LOCAL MUNICIPALITY**

(Registration number KZN 261)

Trading as EDUMBE LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

## EDUMBE LOCAL MUNICIPALITY

(Registration number KZN 261)

Trading as EDUMBE LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

### Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the set standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the eDumbe Local Municipality for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the eDumbe Local Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's internal auditors and Audit Committee.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 5 to 82, which have been prepared on the going concern basis, were approved by the Council on 30 June 2017 and were signed on its behalf by Accounting Officer:



Accounting Officer  
Mr RP Mnguni





AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **Report of the Auditor General**

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**To the Provincial Legislature of EDUMBE LOCAL MUNICIPALITY**

# EDUMBE LOCAL MUNICIPALITY

(Registration number KZN 261)

Trading as EDUMBE LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016 Restated*
<b>Assets</b>			
Current Assets			
Inventories	8	105 653	135 897
VAT receivable	11	765 141	505 444
Receivables from exchange transactions	9&13	8 587 175	7 235 736
Receivables from non-exchange transactions	10&13	14 282 123	10 017 071
Cash and cash equivalents	14	565 182	719 257
		<b>24 305 274</b>	<b>18 613 405</b>
Non-Current Assets			
Investment property	3	10 996 786	10 996 786
Property, plant and equipment	4	244 993 814	271 192 209
Intangible assets	5	11 067	23 253
Heritage assets	6	147 149	147 149
		<b>256 148 816</b>	<b>282 359 397</b>
<b>Total Assets</b>		<b>280 454 090</b>	<b>300 972 802</b>
<b>Liabilities</b>			
Current Liabilities			
Payables from exchange transactions	19	39 672 843	36 372 288
Consumer deposits	20	237 274	231 899
Unspent conditional grants and receipts	16	1 458 403	1 046 139
Current Portion of Long Term Liability	18	56 462	62 698
		<b>41 424 982</b>	<b>37 713 024</b>
Non-Current Liabilities			
Employee benefit obligation	7	9 644 000	7 585 000
Provisions	17	1 601 231	1 426 244
		<b>11 245 231</b>	<b>9 011 244</b>
<b>Total Liabilities</b>		<b>52 670 213</b>	<b>46 724 268</b>
<b>Net Assets</b>		<b>227 783 877</b>	<b>254 248 534</b>
Reserves			
Housing Development Fund	15	100 348	100 348
Accumulated surplus		227 683 529	254 148 186
<b>Total Net Assets</b>		<b>227 783 877</b>	<b>254 248 534</b>

\* See Note 45

# EDUMBE LOCAL MUNICIPALITY

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Trading as EDUMBE LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## Statement of Financial Performance

Figures in Rand

	Note(s)	2017	2016 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	22	21 704 398	19 806 687
Rental of facilities and equipment	23	1 249 990	1 345 652
Interest received	26	357 302	298 280
Licences and permits		880 469	858 131
Impairment reversal - Traffic Fines		550 509	-
Other income	25	823 153	1 268 380
<b>Total revenue from exchange transactions</b>		<b>25 565 821</b>	<b>23 577 130</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	27	14 883 763	14 055 902
Fines	29	1 304 377	3 588 441
<b>Transfer revenue</b>			
Government grants & subsidies	28	99 218 358	94 729 371
<b>Total revenue from non-exchange transactions</b>		<b>115 406 498</b>	<b>112 373 714</b>
<b>Total revenue</b>	21	<b>140 972 319</b>	<b>135 950 844</b>
<b>Expenditure</b>			
Employee related costs	30	(41 172 407)	(37 011 531)
Remuneration of councillors	31	(5 236 167)	(5 216 844)
Audit Fees	38	(1 475 383)	(1 366 922)
Depreciation and amortisation	32	(9 931 594)	(8 891 275)
Finance costs	33	(2 430 630)	(2 863 979)
Lease rentals on operating lease	39	(3 044 676)	(2 873 281)
Debt Impairment	34	(8 471 917)	(4 243 821)
Repairs and maintenance		(794 734)	(2 011 838)
Bulk purchases	35	(18 648 374)	(16 679 087)
Contracted services	36	(8 155 959)	(3 547 277)
Operating grant expenses	40	(5 351 162)	(5 417 057)
Impairment loss - traffic fines		-	(2 062 153)
General Expenses	37	(12 702 400)	(27 751 982)
<b>Total expenditure</b>		<b>(117 415 403)</b>	<b>(119 937 047)</b>
<b>Operating surplus</b>		<b>23 556 916</b>	<b>16 013 797</b>
Loss on disposal of assets and liabilities		(2 021 172)	(177 279)
Actuarial gains/losses	7	(1 217 076)	(802 238)
<b>Surplus for the year</b>		<b>20 318 668</b>	<b>15 034 280</b>

\* See Note 45

# EDUMBE LOCAL MUNICIPALITY

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Trading as EDUMBE LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## Statement of Changes in Net Assets

Figures in Rand	Other NDR	Accumulated surplus	Total net assets
<b>Balance at 01 July 2015</b>	<b>100 348</b>	<b>224 744 581</b>	<b>224 844 929</b>
Changes in net assets	-	6 236 680	6 236 680
Fair value gains, net of tax: Land and buildings	-	(418 898)	(418 898)
Financial assets	-	5 817 782	5 817 782
Net income (losses) recognised directly in net assets	-	15 034 280	15 034 280
Surplus for the year	-	20 852 062	20 852 062
Total recognised income and expenses for the year	-	8 551 543	8 551 543
Correction of Error	-	29 403 605	29 403 605
Total changes	<b>100 348</b>	<b>254 148 186</b>	<b>254 248 534</b>
<b>Restated* Balance at 01 July 2016</b>			
Changes in net assets	-	(46 783 325)	(46 783 325)
Change in Accumulated Surplus	-	(46 783 325)	(46 783 325)
Net income (losses) recognised directly in net assets	-	20 318 668	20 318 668
Surplus for the year	-	(26 464 657)	(26 464 657)
Total recognised income and expenses for the year	-	(26 464 657)	(26 464 657)
<b>Total changes</b>	<b>100 348</b>	<b>227 683 529</b>	<b>227 783 877</b>
<b>Balance at 30 June 2017</b>			
Note(s)			

\* See Note 45

# EDUMBE LOCAL MUNICIPALITY

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## Cash Flow Statement

Figures in Rand

	Note(s)	2017	2016 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		17 773 020	29 175 366
Grants		99 328 858	93 005 957
Interest income		357 302	298 280
		<u>117 459 180</u>	<u>122 479 603</u>
<b>Payments</b>			
Employee costs		(38 626 777)	(33 716 192)
Suppliers		(38 787 905)	(46 267 015)
Finance costs		(2 430 630)	(2 863 979)
Remuneration for Councillors		(5 236 167)	(5 216 844)
		<u>(85 081 479)</u>	<u>(88 064 030)</u>
<b>Net cash flows from operating activities</b>	41	<u>32 377 701</u>	<u>34 415 573</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	<u>(32 638 713)</u>	<u>(32 793 127)</u>
<b>Cash flows from financing activities</b>			
Movement in Current Portion of long term liability		(6 236)	(2 087 932)
Medical Retirement		113 173	68 977
<b>Net cash flows from financing activities</b>		<u>106 937</u>	<u>(2 018 955)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>(154 075)</u>	<u>(396 509)</u>
Cash and cash equivalents at the beginning of the year		719 257	1 115 766
<b>Cash and cash equivalents at the end of the year</b>	14	<u>565 182</u>	<u>719 257</u>

\* See Note 45

# EDUMBE LOCAL MUNICIPALITY

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Trading as EDUMBE LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	31 071 000	(10 908 000)	20 163 000	21 704 398	1 541 398	The prepaid electricity sales remains a challenge more especially temparing with meters in eDumbe Location.
Rental of facilities and equipment	1 710 000	(303 000)	1 407 000	1 249 990	(157 010)	The rental on some facilities was not received due to unavailability of lease agreement and rental amount which was anticipated from Municipal Manager who was renting a municipal house.
Interest received (trading)	402 000	(244 000)	158 000	357 302	199 302	The municipality implemented ring-fencing of grants in March 2017 which resulted on getting more interest which was not budgeted for.
Licences and permits	1 067 000	(325 000)	742 000	880 469	138 469	The anticipated revenue from traffic was less than what was received. More community members came for licenses and permits.

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**Statement of Comparison of Budget and Actual Amounts****Budget on Cash Basis**

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Impairment gain on traffic fines	-	-	-	550 509	550 509	Impairment on traffic fines was less than the impairment for last year which resulted to gains on impairment on traffic fines.
Other income	9 152 000	(8 628 000)	524 000	823 153	299 153	The revenue anticipated was less than amount received and the item which was not anticipated was Insurance claims.
<b>Total revenue from exchange transactions</b>	<b>43 402 000</b>	<b>(20 408 000)</b>	<b>22 994 000</b>	<b>25 565 821</b>	<b>2 571 821</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	16 249 000	-	16 249 000	14 883 763	(1 365 237)	Anticipated revenue on rates based on calculation on valuation roll was below the amount billed.
Fines	1 962 000	-	1 962 000	1 304 377	(657 623)	Cost cutting measures resulted to decrease on fines as overtime were cut and lesser fines were issued.
<b>Transfer revenue</b>						



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## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Government grants & subsidies	97 019 000	(200 000)	96 819 000	99 218 358	2 399 358	Additional grants was received by the municipality. INEP transferred and KZN COGTA allocated R1m for 2017/18 was received during 2016/17 financial year.
<b>Total revenue from non-exchange transactions</b>	<b>115 230 000</b>	<b>(200 000)</b>	<b>115 030 000</b>	<b>115 406 498</b>	<b>376 498</b>	
<b>Total revenue</b>	<b>158 632 000</b>	<b>(20 808 000)</b>	<b>138 024 000</b>	<b>140 972 319</b>	<b>2 948 319</b>	
<b>Expenditure</b>						
Personnel	(47 816 000)	3 618 000	(44 198 000)	(41 172 407)	3 025 593	The municipality did not fill positions of employees who resigned during the year which resulted to savings on budgeted amount.
Remuneration of councillors	(5 464 000)	-	(5 464 000)	(5 236 167)	227 833	The increment on councillors was not implemented as they were no approval from MEC.
Audit fees	(1 200 000)	-	(1 200 000)	(1 475 383)	(275 383)	Engagement with Auditor-General and the audit fees were budgeted based on public audit act (section 23).
Depreciation and amortisation	(4 531 000)	-	(4 531 000)	(9 931 594)	(5 400 594)	The budget amount on non-cash item was not enough to cover the calculations for the year for depreciation.

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## Statement of Comparison of Budget and Actual Amounts

### Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Finance costs	(80 000)	-	(80 000)	(2 430 630)	(2 350 630)	The finance cost also includes the actuaries costs which was not taken into account.
Lease rentals on operating lease	-	-	-	(3 044 676)	(3 044 676)	The lease rentals was budgeted under general expenses.
Debt Impairment	-	-	-	(8 471 917)	(8 471 917)	The non-cash items was not budgeted on the budget.
Repairs and maintenance	(3 450 000)	2 645 000	(805 000)	(794 734)	10 266	The spending on the repairs and maintenance was in line with the budgeted amount.
Bulk purchases	(18 000 000)	-	(18 000 000)	(18 648 374)	(648 374)	The bulk purchases amount was budgeted inclusive of FBE and the small accounts for high mast.
Contracted Services	(5 190 000)	(2 342 000)	(7 532 000)	(8 155 959)	(623 959)	The increase on scope of work for security services resulted to the unauthorised expenditure on contracted services.
Operating expenses for Grants	(5 084 000)	-	(5 084 000)	(5 351 162)	(267 162)	The operating grants overspent and there was an allocation of R200 000 which was spent for IDP Generations community participation training.

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## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
General Expenses	(21 728 000)	2 329 000	(19 399 000)	(12 702 400)	6 696 600	The cost cutting measures were implemented by the municipality which resulted to the underspending on the general expenses.
Total expenditure	(112 543 000)	6 250 000	(106 293 000)	(117 415 403)	(11 122 403)	
Operating surplus	46 089 000	(14 358 000)	31 731 000	23 556 916	(8 174 084)	
Loss on disposal of assets and liabilities	-	-	-	(2 021 172)	(2 021 172)	The loss on disposal on assets was not anticipated and there are non-cash items.
Actuarial gains/losses	-	-	-	(1 217 076)	(1 217 076)	The actuarial loss was not anticipated and there are non-cash items
	-	-	-	(3 238 248)	(3 238 248)	
Surplus before taxation	46 089 000	(14 358 000)	31 731 000	20 318 668	(11 412 332)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	46 089 000	(14 358 000)	31 731 000	20 318 668	(11 412 332)	

# EDUMBE LOCAL MUNICIPALITY

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## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	-	-	-	105 653	105 653	The inventory on hand was not anticipated as the municipality anticipated spending all inventory on hand.
VAT receivables	-	-	-	765 141	765 141	The VAT receivables was not anticipated on the budget.
Receivables from exchange transactions	2 500 000	-	2 500 000	7 763 999	5 263 999	The debt collection was anticipated to be collected however the debt collection is not favorable at all.
Receivables from non-exchange transactions	1 000 000	-	1 000 000	14 282 123	13 282 123	The debt collection was anticipated to be collected however the debt collection is not favorable at all.
Cash and cash equivalents	1 679 000	-	1 679 000	565 182	(1 113 818)	Cash flow challenges remains the huge challenge of the municipality which results to the little amount as at year end.
	5 179 000	-	5 179 000	23 482 098	18 303 098	
<b>Non-Current Assets</b>						
Investment property	10 996 786	-	10 996 786	10 996 786	-	No movement on investment was anticipated as there were no new assets bought.

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## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Property, plant and equipment	288 542 851	-	288 542 851	244 993 814	(43 549 037)	Additions as per the capital budget was anticipated however the disposal part was not done which resulted to the variance.
Intangible assets	36 000	-	36 000	11 067	(24 933)	The budgeted amount was more than the amount calculated as at year end.
Heritage assets	147 149	-	147 149	147 149	-	No movement on grants was anticipated.
	299 722 786	-	299 722 786	256 148 816	(43 573 970)	
<b>Total Assets</b>	304 901 786	-	304 901 786	279 630 914	(25 270 872)	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Payables from exchange transactions	4 500 000	28 216 000	32 716 000	39 672 843	6 956 843	The cash flow challenges resulted to failure by the municipality to comply with section 65 which resulted to the increase on payables.
Unspent conditional grants and receipts	-	-	-	1 458 403	1 458 403	Non-cash items was not budgeted. 100% as the municipality anticipated 100% spending on all grants.
Other short-term liability	-	-	-	56 462	56 462	Non-cash items was not budgeted 100%
Consumer deposits	-	-	-	237 274	237 274	Non-cash items was not budgeted 100%
	4 500 000	28 216 000	32 716 000	41 424 982	8 708 982	
<b>Non-Current Liabilities</b>						

# EDUMBE LOCAL MUNICIPALITY

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## Statement of Comparison of Budget and Actual Amounts

### Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Employee benefit obligation	8 158 000	-	8 158 000	9 644 000	1 486 000	Non-cash items was not budgeted 100%
Provisions	-	-	-	1 601 231	1 601 231	Non-cash items was not budgeted 100%
	8 158 000	-	8 158 000	11 245 231	3 087 231	
<b>Total Liabilities</b>	<b>12 658 000</b>	<b>28 216 000</b>	<b>40 874 000</b>	<b>52 670 213</b>	<b>11 796 213</b>	
<b>Net Assets</b>	<b>292 243 786</b>	<b>(28 216 000)</b>	<b>264 027 786</b>	<b>226 960 701</b>	<b>(37 067 085)</b>	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Other NDR	100 348	-	100 348	100 348	-	No movements on the housing development.
Accumulated surplus	292 143 438	-	292 143 438	227 683 528	(64 459 910)	Accumulated surplus not budgeted in line with movements.
<b>Total Net Assets</b>	<b>292 243 786</b>	<b>-</b>	<b>292 243 786</b>	<b>227 783 876</b>	<b>(64 459 910)</b>	

# EDUMBE LOCAL MUNICIPALITY

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## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Sale of goods and services	61 212 262	(22 392 262)	38 820 000	17 773 020	(21 046 980)	The debt collection of the municipality remains a challenge in the municipality.
Grants	97 019 000	200 000	97 219 000	99 777 702	2 558 702	Grants were received and additional grants were allocated.
Interest income	402 000	(243 554)	158 446	357 302	198 856	Interest was reduced however the municipality implemented the ring-fencing of the grants to accumulate the interest.
	158 633 262	(22 435 816)	136 197 446	117 908 024	(18 289 422)	
<b>Payments</b>						
Employee costs	(47 815 695)	3 618 064	(44 197 631)	(37 811 068)	6 386 563	The employee costs were reduced due to posts not being filled.
Suppliers	(67 889 305)	(16 311 874)	(84 201 179)	(36 946 552)	47 254 627	The cost cutting measures was implemented.
Finance costs	(80 000)	-	(80 000)	(2 430 630)	(2 350 630)	Non cash items were not considered when the budget was done
Remuneration for Councillors	(5 464 000)	-	(5 464 000)	(5 236 167)	227 833	The increment was not implemented as the MEC did not approve the application.
	(121 249 000)	(12 693 810)	(133 942 810)	(82 424 417)	51 518 393	
<b>Net cash flows from operating activities</b>	37 384 262	(35 129 626)	2 254 636	35 483 607	33 228 971	



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## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(34 359 950)	(407 337)	(34 767 287)	(32 856 916)	1 910 371	The additions were more than the amount anticipated as per the allocation due to unspent grant from previous years.
<b>Cash flows from financing activities</b>						
Movement in Current Portion of long term liability	-	-	-	(6 236)	(6 236)	The non cash items were not budgeted on the previous budget
Medical retirement	-	-	-	113 173	113 173	The non cash items were not budgeted on the previous budget
Proceeds from shareholders loan	-	-	-	(2 887 704)	(2 887 704)	The non cash items were not budgeted on the previous budget.
<b>Net cash flows from financing activities</b>	-	-	-	(2 780 766)	2 780 766	
Net increase/(decrease) in cash and cash equivalents	3 024 312	(35 536 963)	(32 512 651)	(154 076)	(32 666 727)	
Cash and cash equivalents at the beginning of the year	112 000	607 257	719 257	719 257	-	
Cash and cash equivalents at the end of the year	3 136 312	(34 929 706)	(31 793 394)	565 181	(31 228 213)	

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. Accounting policies for material transactions, events or conditions not covered by the GRAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

These annual financial statements have been prepared in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP), as prescribed by the Minister of Finance in terms of Government Gazette number 31021, Notice Number 5116 dated 9 May 2008 and also in terms of the standards and principles contained in Directives 3 and 5 issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

##### Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

##### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### Useful lives of property, plant and equipment

The municipality's management estimates the remaining useful lives and condition of significant items of property, plant and equipment on an annual basis. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a significant impairment of the respective asset.

#### Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

#### Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

#### Allowance for doubtful debts

The provision for impairment is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the effective interest rate computed at initial recognition. An impairment loss is recognised in surplus and deficit when there is objective evidence that an asset is impaired. The impairment is measured with reference to historical data and payment trend analysis per group of consumers.

### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

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## Accounting Policies

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### 1.4 Investment property (continued)

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 3).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 3).

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost or fair value

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The costs an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item cannot be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if major spare parts and servicing equipment can be used only in connection with a item of property, plant and equipment they are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Incomplete construction work is stated on historical cost. Depreciation only commences when the assets is available for use. Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

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### 1.5 Property, plant and equipment (continued)

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

The cost or fair value of property, plant and equipment is depreciated using the straight line method over the period of the estimated useful lives of the assets. Depreciation on new acquisitions is charged to the Statement of Financial Performance in the financial year that economic benefits accrue to the municipality.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Infrastructure	Straight line	
• Road Structures - Kerbing		50
• Road Structures - Road Base		50
• Road Structures - Road Surfaces		20
• Bridges		80
• Pedestrian Malls		20-30
• Electricity		30-50
• Storm Water		60
Community	Straight line	
• Buildings		25
• Recreational Facilities		25-30
Other property, plant and equipment	Straight line	
• Buildings		25
• Vehicles		7
• Office Equipment		5
• Furniture and Fittings		7
• Other items of Plant and Equipment		3-10
• Landfill sites		25-55
• Leased Assets		Period of lease

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

The carrying amount of items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### 1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.



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## Accounting Policies

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### 1.6 Intangible assets (continued)

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

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Item	Depreciation method	Average useful life
Computer software, other	Straight line	3-5 years

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Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

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## **Accounting Policies**

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### **1.7 Heritage assets**

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Where the carrying amount of an item of heritage asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance. Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Where items of heritage asset have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance.

#### **Recognition**

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

### **1.8 Investment Property**

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for (i) use in the production or supply of goods or services or for, (ii) to meet service delivery objectives, or (iii) sale in the ordinary course of operations. At initial recognition, the municipality measures the investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property at no cost or for a nominal value), its cost is its fair value as at the date of acquisition.

Owner-occupied property is properly held for use in the production or supply of goods and services or for administration purposes. Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replacement part is derecognised.

Subsequent to initial measurement investment property is measured at fair value. The fair value of investment property reflects market condition at the reporting date. A gain or loss arising from a change in fair value is included in the net surplus/ deficit for the period in which it arises. If the fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete. The municipality applies the same accounting for each category of investment.

### **1.9 Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.



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## Accounting Policies

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### 1.9 Financial instruments (continued)

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

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## Accounting Policies

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### 1.9 Financial Instruments (continued)

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

#### Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

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### 1.9 Financial instruments (continued)

#### Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Held-to-maturity Investments and Loans and Receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the effective interest method, less any accumulated impairment losses.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

### 1.10 Tax

#### Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

### 1.11 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the amount of the present value of the minimum lease payments is the .

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

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### 1.11 Leases (continued)

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in statement of financial performance.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.12 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In general, the basis of allocating costs to inventory items is the weighted average method.

Inventories, consisting of consumable stores and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Where inventories are acquired at no cost, or for nominal consideration, their costs shall be their fair value as at the date of the acquisition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless the cost qualifies for capitalisation to the cost of another asset.

### 1.13 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.



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#### 1.13 Impairment of cash-generating assets (continued)

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

##### Identification

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

##### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

##### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

##### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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### 1.13 Impairment of cash-generating assets (continued)

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

### 1.14 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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#### **1.14 Impairment of non-cash-generating assets (continued)**

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

#### **Identification**

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### **Value in use**

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### **Recognition and measurement**

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### **1.15 Share capital / contributed capital**

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

#### **1.16 Employee benefits**

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:



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### 1.16 Employee benefits (continued)

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

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#### 1.16 Employee benefits (continued)

##### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

##### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

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### 1.16 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

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### 1.16 Employee benefits (continued)

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [or is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.



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### **1.16 Employee benefits (continued)**

#### **Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

### **1.17 Provisions and contingencies**

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

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### 1.17 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 43.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

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### 1.17 Provisions and contingencies (continued)

#### Landfill Sites

The Landfill Rehabilitation Provision is created for the rehabilitation of the current operational sites at the future estimated time of closure. The value of the provision is based on the expected future cost to rehabilitate of the various site discounted back to the statement of position at the cost of capital.

The municipality has an obligation to rehabilitate these Landfill sites. The cost of such property includes the initial estimate of the cost of rehabilitating the land and restoring the site on which it is located, the obligation which the municipality incurs as a consequence of having used the property during a particular period for landfill purposes. The municipality estimates the useful lives and makes assumption to the useful lives of these assets, which influences the provision for future costs.

### 1.18 Commitments

Commitments are not recognised. Commitments are disclosed in the notes to the annual financial statements. A commitment is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

### 1.19 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners. An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Interest is recognised on a time proportion basis. The interest on arrears account are currently not charged but the situation will be reviewed in future. Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered and the fee has been charged or licences and permits have been issued. Revenue for agency services is recognised on a monthly basis once the revenue collected on behalf of agents has been quantified and once the terms of the agency agreement have been complied with. Revenue from the sales of goods is recognised when the risk is passed to the consumer.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed..

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### Accounting Policies

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#### 1.20 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.



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## Accounting Policies

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### 1.20 Revenue from non-exchange transactions (continued)

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality. The full amount of traffic fines issued during the year is recognised at the initial transaction date as revenue in accordance with IGRAP1. Assessing and recognising impairment is an event that takes place subsequent to the initial recognition of revenue charged. The municipality assesses the probability of collecting revenue when accounts fall into arrears based on historic trends.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

### 1.21 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.22 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred. Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use of sale.

### 1.23 Comparative figures

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed in a note to the financial statements.

Where accounting errors or a change in accounting policy has been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

The principle accounting policies adopted in the preparation of these annual financial statements are set out below.

### 1.24 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

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### 1.25 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.26 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

**Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.**

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.27 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

### 1.28 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

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### 1.28 Budget Information (continued)

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2016-07-01 to 2017-06-30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

### 1.29 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.30 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

### 1.31 Value Added Tax

The municipality accounts for Value Added Tax on the accrual basis in the Annual Financial Statements. However VAT is declared to the South African Revenue Services as input VAT or output VAT only when payments are made to the supplier or payments are received for goods or services. The net difference of VAT payable/ receivable on output VAT on Debtors( where money has not been received) and input VAT on Creditors(accruals where payment has not been made) is disclosed in the Statement of Financial Position.

### 1.32 Other accounting policy 2

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

Risks and exposure are disclosed as follows:

#### Credit Risk

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## Accounting Policies

### 1.32 Other accounting policy 2 (continued)

- Each class of financial instrument is disclosed separately.
- Maximum exposure to credit risk not covered by collateral is specified.

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### 2. New standards and interpretations

#### 2.1 Standards and Interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2017 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	01 April 2009	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2009	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2009	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2009	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2009	Unlikely there will be a material impact
• GRAP 110: Living and Non-living Resources	01 April 2009	Unlikely there will be a material impact
• GRAP 12 (as amended 2016): Inventories	01 April 2018	Unlikely there will be a material impact
• GRAP 27 (as amended 2016): Agriculture	01 April 2018	Unlikely there will be a material impact
• GRAP 31 (as amended 2016): Intangible Assets	01 April 2018	Unlikely there will be a material impact
• GRAP 103 (as amended 2016): Heritage Assets	01 April 2018	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2018	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2017	Unlikely there will be a material impact
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2017	Unlikely there will be a material impact
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2018	Unlikely there will be a material impact
• GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2018	Unlikely there will be a material impact
• GRAP 16 (as amended 2016): Investment Property	01 April 2018	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2018	Unlikely there will be a material impact



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### 3. Investment property

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	10 996 786	-	10 996 786	10 996 786	-	10 996 786

#### Reconciliation of Investment property - 2017

	Opening balance	Total
Investment property	10 996 786	10 996 786

#### Reconciliation of investment property - 2016

	Opening balance	Total
Investment property	10 996 786	10 996 786

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

#### Details of valuation

Revaluations were performed by an independent valuer from EMS Consulting who was subcontracted by Ducharme Consulting who prepared the Asset Register for the municipality. The municipal valuer who did the valuations are not connected to the municipality and have recent experience in location and category of the investment property being valued.

These assumptions are based on current market conditions.

All of the municipality's Investment Properties are held under freehold interests and no Investment Property has been pledged as security for any liabilities of the municipality. There were no changes on the figures disclosed in 2016 and 2017 due to the valuator's opinion which stated that there was no changes or little changes from 2016 to 2017 based on the economic forecast made by three major Banks in South Africa, ABSA, FNB and Nedbank.

### 4. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	30 179 257	-	30 179 257	30 219 257	-	30 219 257
Buildings	121 777 441	(26 290 199)	95 487 242	113 710 794	(22 510 186)	91 200 608
Motor vehicles	2 159 827	(579 397)	1 580 430	2 590 995	(733 882)	1 857 113
Infrastructure	140 236 233	(31 273 665)	108 962 568	164 894 159	(26 781 071)	138 113 088
Other property, plant and equipment	15 363 005	(6 578 688)	8 784 317	15 273 680	(5 471 537)	9 802 143
<b>Total</b>	<b>309 715 763</b>	<b>(64 721 949)</b>	<b>244 993 814</b>	<b>326 688 885</b>	<b>(55 496 676)</b>	<b>271 192 209</b>

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### 4. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Additions - Under Construction	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	30 219 257	-	-	(40 000)	-	-	-	30 179 257
Buildings	91 200 608	15 747 903	8 814 724	-	(16 495 980)	(3 780 013)	-	95 487 242
Motor vehicles	1 857 113	572 366	-	(626 239)	-	(222 810)	-	1 580 430
Infrastructure	138 113 088	1 017 843	9 508 132	(1 354 051)	(33 514 730)	(4 711 758)	(95 956)	108 962 568
Other property, plant and equipment	9 802 143	91 929	-	(882)	-	(728 176)	(380 697)	8 784 317
	<b>271 192 209</b>	<b>17 430 041</b>	<b>18 322 856</b>	<b>(2 021 172)</b>	<b>(50 010 710)</b>	<b>(9 442 757)</b>	<b>(476 653)</b>	<b>244 993 814</b>

#### Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Additions - Under Construction	Disposals	Depreciation	Impairment loss	Total
Land	30 219 257	-	-	-	-	-	30 219 257
Buildings	73 285 783	4 802 095	16 495 980	-	(3 383 250)	-	91 200 608
Motor vehicles	1 732 818	348 860	-	(14 496)	(210 069)	-	1 857 113
Infrastructure	101 268 851	7 988 690	33 514 729	-	(4 659 182)	-	138 113 088
Other property, plant and equipment	9 960 237	689 902	-	(163 810)	(626 459)	(57 727)	9 802 143
	<b>216 466 946</b>	<b>13 829 547</b>	<b>50 010 709</b>	<b>(178 306)</b>	<b>(8 878 960)</b>	<b>(57 727)</b>	<b>271 192 209</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

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### 5. Intangible assets

	2017		2016	
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Cost / Valuation	Accumulated amortisation and accumulated impairment
Computer software, other	206 938	(195 871)	11 067	206 939
				(183 686)
				23 253

### Reconciliation of Intangible assets - 2017

	Opening balance	Amortisation	Total
Computer software, other	23 253	(12 186)	11 067

### Reconciliation of Intangible assets - 2016

	Opening balance	Amortisation	Total
Computer software, other	35 568	(12 315)	23 253

### 6. Heritage assets

	2017		2016	
	Cost / Valuation	Accumulated amortisation and accumulated impairment losses	Cost / Valuation	Accumulated amortisation and accumulated impairment losses
Municipal Mayoral Chain	147 149	-	147 149	147 149

### Reconciliation of heritage assets 2017

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#### 6. Heritage assets (continued)

	Opening balance	Total
Municipal Mayoral Chain	147 149	147 149

#### Reconciliation of heritage assets 2016

	Opening balance	Total
Municipal Mayoral Chain	147 149	147 149

#### 7. Employee benefit obligations

##### Defined benefit plan

##### Post retirement benefit plan

The municipality's personnel are members of the Natal Joint Municipal Pension retirement funds, namely the Superannuation, Retirement and Provident Funds and there are few members who are GEPP due to the fact that they were employed before the local government sphere was introduced. As the aforementioned funds are multi-employer funds, the allocation of any surplus/deficit to individual funds cannot be determined. Furthermore disclosure of further details such as actuarial assumptions, cannot be attributed to any specific fund and is of no relevance to users of the municipality's financial statements.

An independent valuer carries out a statutory valuation of the NJMPF on a triennial basis and an interim valuation on an annual basis. The findings are extracts from the interim actuarial valuation prepared by Argen Actuarial Solution as at 31 March 2014.

##### Retirement fund

The memorandum account in respect of pensioners was fully funded on the discounted cash flow method.

The Funds liabilities for the contributory members exceeded the value of the assets; it is expected that the shortfall will be funded by a surcharge of 17% of pensionable emoluments by 2015.

In order to fund the deficit, the surcharge should be increased from 17% to say, 17.5% from 1 July 2014 and the required period be extended from 5 years to 8 years.

##### Provident fund

The latest statutory valuation of the Provident Fund (defined contribution) as at 31 March 2014 revealed that the fund was in a sound financial position.

##### Post Employee medical benefit



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### 7. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

#### Carrying value

Employee Benefit Obligation

7 523 000

5 728 000

The two most important financial variables used in our valuation are the discount rate and salary inflation. The assumption has been made for these variables as follows:

#### Financial Variables

Discounted rate

CPI (Consumer Price Inflation)

Medical Aid Contribution inflation

Yield Curve

Yield Curve

Difference  
between  
nominal and  
yield curve  
CPI +1  
Yield curve  
based \*\*\*\*

Difference  
between  
nominal and  
yield curve  
CPI +1  
Yield curve  
based \*\*\*\*

Net effective Discount rate

-

#### Membership data

Number of active employees

Subsidy weighted average

Subsidy weighted average past service

Number of spouse

Male

Female

Total

29

45

74

40.1

40.3

40.2

6.3

8.8

7.6

12

7

19

Average monthly salary payable during the retirement (R)

R

1 940 R

1 510 R

1 700

#### Continuation members (Pensioners)

Number of continuation members

Subsidy weighted average age

Average monthly subsidy (R)

Male

Female

Total

1

3

4

64.0

62.1

62.7

R

3 750 R

2 740 R

2 990

#### Subsidy Arrangements

The Municipality has agreed to subsidise the medical aid contributions of retired members in the following way:

- All new pensioners (that are currently still in service) and their dependants will receive a 60% subsidy.
- All existing continuation members (pensioners) and their dependants will continue to receive a 60% subsidy.

#### Mortality Rate

#### Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

#### Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

#### Mortality Rates

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#### 7. Employee benefit obligations (continued)

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

#### Spouses and Dependents

We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement and vice versa.

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### 7. Employee benefit obligations (continued)

#### Decrements withdrawal

Age band	Withdrawal rate Males	Withdrawal rate Males
Age 20 - 24	16 %	24 %
Age 25 - 29	12 %	18 %
Age 30 - 34	10 %	15 %
Age 35 - 39	8 %	10 %
Age 40 - 44	6 %	6 %
Age 45 - 49	4 %	4 %
Age 50 - 54	2 %	2 %
Age 55 - 59	1 %	1 %
Age 60 +	- %	- %

#### Long Service Awards

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The said award comprises of a certain number of additional vacation leave days as prescribed on the Basic condition of employment. The effective date used for the purposes of the valuation was 30 June 2017.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2016 by ZAQ Consultants and Actuaries.

#### Membership data

	No. of active employees	Salary weighted average age (Yrs)	Weighted average past service (Yrs)
Male	88	41.69	8.61
Female	62	40.93	8.70
	150	41.36	8.65

#### Long Service Awards Liabilities

Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service.

#### Additional text

Formula used to calculate Total long service benefit award

	Total Long Service Benefit Award (%) Annual Salary)	Completed Years of Services
(10/ 250) * Annual Salary	4 %	10
(20/ 250) * Annual Salary	8 %	15
(30/ 250) * Annual Salary	12 %	20, 25, 30, 35, 40 & 45

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#### 7. Employee benefit obligations (continued)

##### Financial Variables

The assumption has been made for these variables as follows:

Discount Rate

CPI (Consumer Price Inflation)

Normal Salary Increase Rate

Net Effective Discount Rate

Net expense recognised in the statement of financial performance

Yield Curve Difference between nominal and real yield curve Equal to CPI + 1%	Yield Curve Difference between nominal and real yield curve Equal to CPI + 1%
Yield Curve Based ***	Yield Curve Based ***
2 121 000	1 857 000

- -

The two most important financial variables used in our valuation are the discount rate and salary inflation.

##### Net expense recognised in the statement of financial performance

Current finance cost	800 000	500 000
Interest cost	784 000	595 000
Actuarial (gains) losses	1 217 076	802 238
Benefit Paid (Actual)	(742 076)	(95 238)
	<b>2 059 000</b>	<b>1 802 000</b>

##### Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for illhealth and early retirements.

Additional text

##### Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Additional text

##### Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Additional text

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### 7. Employee benefit obligations (continued)

#### Withdrawal Decrements

A table setting out the assumed rates of withdrawal from service is set out below:

Age band	Withdrawal rate - Males	Withdrawal rate - Females
Age 20 - 24	16 %	24 %
Age 25 - 29	12 %	18 %
Age 30 - 34	10 %	15 %
Age 35 - 39	8 %	10 %
Age 40 - 44	6 %	6 %
Age 45 - 49	4 %	4 %
Age 50 - 54	2 %	2 %
Age 55 - 59	1 %	1 %
Age 60 +	- %	- %

#### Current Finance Costs

The last valuation carried out on the Superannuation Fund as at 31 March 2014 reflected:

- The memorandum account in respect of pensioners was 96% funded.
- There was a deficit in respect of active members which is being met by the surcharge of 9.5% of pensionable salaries, this surcharge is payable for 8 years with effect from 1 July 2012.
- The required contribution rate for the future service exceeded the contribution rate payable by 3.63% of pensionable salaries.
- The statutory actuarial valuation carried out on the Superannuation Fund as at 31 March 2014 reflected:
- The memorandum account in respect of pensioners was fully funded.
- There was a deficit in respect of active members and it is recommended that the surcharge of 7% be increased to 9.5% of pensionable salaries and that the repayment period be set at 8 years at which time the deficit is expected to be fully funded. The required contribution rate for the future service exceeded the contribution rate payable by 3.63% of pensionable salaries.

Additional text

#### Employee benefit obligation

Medical Aid Benefit Obligation

Long Service Awards Benefit

7 523 000	5 728 000
2 121 000	1 857 000
<b>9 644 000</b>	<b>7 585 000</b>

### 8. Inventories

Inventories

105 653	135 897
---------	---------

Inventories consist of goods which are held for own use include stationery (photocopying papers), cleaning material and electricity material. The valuation roll include housing stock (RDP houses) for an amount of R3 049 000 which are still to be transferred to the community.

### 9. Receivables from exchange transactions

Consumer debtors - Electricity

Consumer debtors - Refuse

5 475 054	3 882 339
3 112 121	3 353 397
<b>8 587 175</b>	<b>7 235 736</b>

#### Trade and other receivables pledged as security

Consumer debtors have not been pledged as security or encumbered in any way.

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#### 9. Receivables from exchange transactions (continued)

##### Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

##### Trade receivables

##### Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

The Council has resolved not to charge interest on outstanding debtor account balances at 30 June 2016. The municipality enforces its approved credit control policy to ensure the recovery of Consumer Debtors.

The Council will at a future date determine the terms and conditions for interest to be charged on overdue accounts and the rate thereof.

The municipality receives applications for services that it processes. Deposits are required to be paid for all electrical accounts opened. The management of the municipality is of the opinion that the carrying value of Consumer Debtors approximate their fair values.

Consumers debtors are billed monthly, at latest by the end of each month.

The fair value of consumer debtors was determined after considering the standard terms and conditions of agreement entered into between the municipality and Consumer Debtors as well as the current payment ratios of the municipality's consumers.

##### Trade and other receivables past due but not impaired

Based on the past experience including the current collection rate, the municipality has taken a decision to impair 100% its debts which are 90 days overdue for all categories except on property rates where government properties were separately treated. The municipality has experienced the non-payment by consumers which has contributed to the cash flow challenges. Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2017, R 8 587 175 (2016: R 7 235 736) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	1 571 635	1 544 727
2 months past due	1 024 210	1 842 316
3 months past due	5 991 329	3 848 693

##### Trade and other receivables impaired

As of 30 June 2017, trade and other receivables of R 71 795 357 (30 June 2016: R 64 427 804) were impaired and provided for.

The amount of the provision was R 71 795 357 as of 30 June 2017 (30 June 2016: R 64 427 804).

The ageing of the provision is as follows:

3 to 4 months	1 983 507	1 326 002
Over 5 months	69 856 850	63 101 802

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#### 9. Receivables from exchange transactions (continued)

##### Reconciliation of provision for impairment of trade and other receivables

Opening balance	64 427 804	63 524 646
Provision for impairment	7 367 553	903 158
<b>Total Provision at 30 June</b>	<b>71 795 357</b>	<b>64 427 804</b>

#### 10. Receivables from non-exchange transactions

Fines	2 888 890	1 446 038
Government grants and subsidies	522 764	1 976 213
Consumer debtors - Rates	10 870 469	6 594 820
	<b>14 282 123</b>	<b>10 017 071</b>

The municipality due to the challenges with associated with the properties which include the title deeds as well as ownership of properties, the municipality have resolved to implement the impairment for Property Rates and the municipality understands the provision of Tax Act with regards to the impairment of taxes.

##### Receivables from non-exchange transactions past due but not impaired

Based on the past experience the municipality has taken a decision to impair 100% of its debts which are 90 days overdue with an exception of Business properties and State Owned which was not impaired at all (whole outstanding debt). The municipality has experience the non-payment by consumers which has contributed to the cash flow problem. Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2017, R 10 870 468 (2016: R 6 594 820) were past due but not impaired.

Government Grants and Subsidies. The amount spent during 2015/16 financial year, the municipality overspent on some of the grants due to numerous reasons. The Electrification grant was allowed to overspent since the municipality was spending on the project which will be budgeted in 2016/17 financial year and Municipal Infrastructure Grant was 100% spent during the financial year however after the Retentions withheld were recognised the grant was then overspent. The ageing of amounts past due but not impaired is as follows:

1 month past due	754 725	531 625
2 months past due	860 672	585 592
3 months past due	9 255 072	5 477 603

##### Receivables from non-exchange transactions impaired

The amount of the provision was R 14 532 381 as of 30 June 2017 (30 June 2016: R 13 428 017).

The ageing of the provision is as follows:

3 to 6 months	423 238	3 010 975
Over 6 months	14 109 142	10 417 042

##### Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	13 428 017	10 087 354
Provision for impairment	1 104 365	3 340 663
<b>Total Provision at 30 June</b>	<b>14 532 382</b>	<b>13 428 017</b>



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<b>10. Receivables from non-exchange transactions (continued)</b>		
<b>Reconciliation of traffic fines impairment</b>		
Opening balance	6 255 050	4 192 897
Provision for impairment	(550 509)	2 062 153
	<b>5 704 541</b>	<b>6 255 050</b>
<b>Reconciliation - Traffic Fines</b>		
Traffic Fines debtors	8 593 430	7 701 088
Less: Impairment for traffic fines	(5 704 541)	(6 255 050)
	<b>2 888 889</b>	<b>1 446 038</b>
<b>11. VAT receivable</b>		
VAT	765 141	505 444
<b>12. Consumer debtors</b>		
<b>Gross balances</b>	<b>25 402 850</b>	<b>20 022 837</b>
Consumer debtors - Rates	8 813 876	6 383 335
Consumer debtors - Electricity	71 568 655	65 280 205
Consumer debtors - Refuse (Filtered)	<b>105 785 381</b>	<b>91 686 377</b>
<b>Less: Allowance for impairment</b>	<b>(14 532 381)</b>	<b>(13 428 017)</b>
Consumer debtors - Rates	(3 338 822)	(2 500 996)
Consumer debtors - Electricity	(68 456 534)	(61 926 808)
Consumer debtors - Refuse	<b>(86 327 737)</b>	<b>(77 855 821)</b>
<b>Reconciliation of allowance for impairment of consumer debtors</b>		
Opening balance	77 855 821	73 612 000
Allowance for impairment	8 471 917	4 243 821
	<b>86 327 738</b>	<b>77 855 821</b>
<b>13. Consumer debtors disclosure</b>		
<b>Gross balances</b>	<b>25 402 850</b>	<b>20 022 837</b>
Consumer debtors - Rates	8 813 876	6 383 335
Consumer debtors - Electricity	71 568 655	65 280 205
Consumer debtors - Refuse	<b>105 785 381</b>	<b>91 686 377</b>
<b>Less: Allowance for impairment</b>	<b>(14 532 381)</b>	<b>(13 428 017)</b>
Consumer debtors - Rates	(3 338 822)	(2 500 996)
Consumer debtors - Electricity	(68 456 534)	(61 926 808)
Consumer debtors - Refuse	<b>(86 327 737)</b>	<b>(77 855 821)</b>

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#### 13. Consumer debtors disclosure (continued)

##### Net balance

Consumer debtors - Rates	10 870 469	6 594 820
Consumer debtors - Electricity	5 475 054	3 882 339
Consumer debtors - Refuse	3 112 121	3 353 397
	<b>19 457 644</b>	<b>13 830 556</b>

##### Rates

Current (0 -30 days)	754 725	531 625
31 - 60 days	860 672	585 592
61 - 90 days	514 117	508 625
91 - 120 days	309 354	284 190
> 365 days	8 431 601	4 684 788
	<b>10 870 469</b>	<b>6 594 820</b>

##### Electricity

Current (0 -30 days)	690 930	797 487
31 - 60 days	532 295	237 025
61 - 90 days	191 536	203 063
91 - 120 days	1 461 879	-
121 - 365 days	74 588	112 087
> 365 days	2 523 826	2 532 677
	<b>5 475 054</b>	<b>3 882 339</b>

##### Refuse

Current (0 -30 days)	880 705	499 605
31 - 60 days	491 915	459 748
61 - 90 days	-	473 043
121 - 365 days	37 722	357 349
> 365 days	1 701 779	1 563 652
	<b>3 112 121</b>	<b>3 353 397</b>

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<b>13. Consumer debtors disclosure (continued)</b>		
<b>Summary of debtors by customer classification (Exchanged and Non-Exchanged Transactions)</b>		
<b>Consumers</b>	1 661 189	1 040 705
Current (0 -30 days)	1 094 620	1 037 804
31 - 60 days	922 688	866 382
61 - 90 days	891 685	836 889
91 - 120 days	84 799 572	74 895 572
> 365 days	89 369 754	78 677 352
	(86 327 738)	(77 855 821)
Less: Allowance for impairment	<b>3 042 016</b>	<b>821 531</b>
<b>Industrial/ commercial</b>	919 067	630 695
Current (0 -30 days)	491 849	179 327
31 - 60 days	171 520	232 666
61 - 90 days	134 133	196 106
91 - 120 days	6 587 956	5 374 994
> 365 days	<b>8 304 525</b>	<b>6 613 788</b>
<b>National and provincial government</b>	94 625	159 497
Current (0 -30 days)	450 968	194 956
31 - 60 days	156 713	100 175
61 - 90 days	98 234	2 607 220
91 - 120 days	6 972 735	3 333 391
> 365 days	<b>7 773 275</b>	<b>6 395 239</b>
<b>14. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	87	319
Bank balances	14 264	111 880
Other cash and cash equivalents	550 831	607 058
	<b>565 182</b>	<b>719 257</b>

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### 14. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
FNB Primary Account	14 264	111 880	73 636	14 264	111 880	93 116
Petty Cash	87	319	328	87	319	328
Grindrod Bank Investment Account	14 824	13 782	405 987	14 824	13 782	405 987
FNB - Call Account - 622198848746	2 630	52 632	1 972	2 630	52 632	1 972
FNB - Call Account - 61328003233	533 377	540 644	551 329	533 377	540 644	551 329
FNB BANK - Account Type - 62033660376	-	-	3 372	-	-	3 372
FNB BANK - Account Type - 62421843807	-	-	59 662	-	-	59 662
<b>Total</b>	<b>565 182</b>	<b>719 257</b>	<b>1 096 286</b>	<b>565 182</b>	<b>719 257</b>	<b>1 115 766</b>

### 15. Housing development fund

Non-distributable reserve

100 348

100 348

The Housing Development Fund contains all proceeds from housing developments, which include rental income and sales of houses.

Monies standing to the credit of the Housing Development Fund are used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

The balance of the funding is included in the Municipality's main and call bank account.

### 16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Extended Public Works Programme Grant	-	422 535
Arts and Culture Grant	435 042	530 120
KZN Cogta Massification Grant	23 361	18 361
Sportsfield Maintenance Grant	-	75 123
KZN COGTA Wall-to-Wall Grant	1 000 000	-
	<b>1 458 403</b>	<b>1 046 139</b>

#### Movement during the year

Balance at the beginning of the year	1 046 139	2 769 552
Additions during the year	94 968 000	94 481 000
Income recognition during the year	(94 555 736)	(96 204 413)
	<b>1 458 403</b>	<b>1 046 139</b>

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

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### 16. Unspent conditional grants and receipts (continued)

See note 28 for reconciliation of grants from National/Provincial Government.

### 17. Provisions

#### Reconciliation of provisions - 2017

	Opening Balance	Additions	Total
Environmental rehabilitation	1 426 244	174 987	1 601 231

#### Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Environmental rehabilitation	1 357 810	68 434	1 426 244
Legal proceedings	2 591 948	(2 591 948)	-
	<b>3 949 758</b>	<b>(2 523 514)</b>	<b>1 426 244</b>

The warranty provision represents management's best estimate of the municipality's liability under one period warranties granted on electrical products, based on prior experience and industry averages for defective products.

There is no expected reimbursement from the manufacturer in respect of this provision.

#### Environmental rehabilitation provision

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal.

At 30 June 2017 the municipality will incur estimated rehabilitation costs of R 1 498 127 (2016: R 1 426 244) to restore the new landfill site at the end of its useful life, estimated to be 29 years. The amount of rehabilitation is dependent on future costs, technology, inflation and site consumption. The landfill provision represents management's best estimate of the Municipality's liability. The municipality is currently having two landfill sites, the old landfill sites is situated near Esikhaleni Area while the new landfill site by the Coal Siding. The municipality is currently not utilizing the old site as Landfill Site since January 2014 and the current status of the old landfill sites shows that there is no traces of a Landfill Site, and therefore the old landfill site do not acquire any provision for closure. The landfill site for both sites was conducted by Ducharme Consulting.

The new landfill site is expected to be fully operational until 30 June 2045 and it is assumed that the rehabilitation will only take place thereafter. The calculation of the provision amount for the new landfill site was done in 2015/2016 financial year and the report has been issued to the municipality by Ducharme Consulting. The report was concluded and signed on 25 August 2016.

#### Legal proceedings provisions

The municipality was sued by Cox and Partners for an amount of R2, 5 m for the services rendered, collection of old debts. The case was conducted in August 2015 and the settlement was reached between two parties to settle the amount. The settlement agreement stipulated terms of payment which had two options, payment in two equal instalments or once-off settlement.

### 18. Current Portion of Long Term Liability

Miscellaneous income	56 462	57 115
Travel card	-	5 583
	<b>56 462</b>	<b>62 698</b>

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<b>19. Payables from exchange transactions</b>		
Trade Creditors and Accruals	34 947 430	31 488 038
Other creditors	(28 717)	1 283
Leave Provision/ Accruals	2 459 706	2 148 063
Bonus Provision/ Accruals	1 147 552	1 058 123
Payment received in advance - contract process	(93 498)	(93 498)
Retention	1 240 370	1 238 454
Income received in advance (Unallocated receipts)	-	531 825
	<b>39 672 843</b>	<b>36 372 288</b>

The average credit period on purchases is 30 days from the receipt of the statement, as determined by the Municipal Finance Management Act. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. Describe the method for determining fair values. Where a valuation technique has been applied, the assumptions are also to be disclosed.

The municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe. Payments received in advance is due to payments received for hall hire and prepaid electricity. Payments received in advance are consumer debtors' accounts paid in advance.

Staff leave and bonuses accrued to the staff of the municipality on an annual basis, subject to certain conditions.

### 20. Consumer deposits

Electricity	237 274	231 899
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Consumer deposits are paid by consumers on application for new electricity connections. The deposits are repaid when the electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account. No interest is paid on Consumer deposits held.

The management of the municipality is of the opinion that the carrying value of Consumer deposits approximate their fair values.

The fair value of Consumer deposits was determined after considering the standard terms and conditions of agreements entered into between the municipality and its consumers.

### 21. Revenue

Service charges	21 704 398	19 806 687
Rental of facilities and equipment	1 249 990	1 345 652
Interest received	357 302	298 280
Licences and permits	880 469	858 131
Impairment gain from traffic fines	550 509	-
Other income	823 153	1 268 380
Property rates	14 883 763	14 055 902
Fines	1 304 377	3 588 441
Government grants & subsidies	99 218 358	94 729 371
	<b>140 972 319</b>	<b>135 950 844</b>



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<b>21. Revenue (continued)</b>		
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	21 704 398	19 806 687
Rental of facilities and equipment	1 249 990	1 345 652
Interest received	357 302	298 280
Licences and permits	880 469	858 131
Impairment gain from traffic fines	550 509	-
Other income	823 153	1 268 380
	<b>25 565 821</b>	<b>23 577 130</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
Taxation revenue	14 883 763	14 055 902
Property rates	1 304 377	3 588 441
Fines		
Transfer revenue	<b>99 218 358</b>	<b>94 729 371</b>
Government grants & subsidies	<b>115 406 498</b>	<b>112 373 714</b>
<b>22. Service charges</b>		
Service charges - Electricity meters	8 819 017	8 272 664
Service Charges - Prepaid electricity	6 780 581	5 945 452
Refuse removal	6 104 800	5 588 571
	<b>21 704 398</b>	<b>19 806 687</b>
The amounts disclosed above for revenue from service charges are in respect of services rendered which are billed to the consumers on a monthly basis according to tariffs approved by Council of eDumbe Local Municipality.		
<b>23. Rental of facilities and equipment</b>		
Facilities and equipment	135 100	105 412
Rental of facilities	-	129 457
Rental of equipment	1 114 890	1 110 783
Rental income - Plantation	<b>1 249 990</b>	<b>1 345 652</b>
<b>24. Other revenue</b>		
Impairment gain from traffic fines	550 509	-
Other income	823 153	1 268 380
	<b>1 373 662</b>	<b>1 268 380</b>

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<b>25. Other Income</b>		
School Patrolling Subsidy	(67 102)	(30 921)
Fax and Copies	-	257
Burial Fees	20 606	23 035
Tender fees	146 032	75 938
Connection fees/ Prepaid Meter Bases	15 150	13 375
Reconnection fees	881	4 526
Prepaid Meter Installation	36 490	30 351
Rates Clearance Certificate	8 733	8 440
Building and Structures fees	30 746	9 348
Sundry Income	46 790	75 568
Insurance Received	489 342	891 039
LGSETA Subsidy	-	76 709
Prepaid Meter Box	47 762	52 629
Hall Hire	46 769	38 086
Sportsfield Hire	954	-
	<b>823 153</b>	<b>1 268 380</b>

The amounts disclosed above for other income are in respect of services rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

### 26. Interest received

#### Interest revenue

Interest on investments	199 146	178 115
Interest on debit balance	158 156	120 165
	<b>357 302</b>	<b>298 280</b>

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<b>27. Property rates</b>		
<b>Rates received</b>		
Residential	3 558 254	3 373 800
Commercial	2 460 418	2 322 077
State	8 282 405	7 959 610
Agricultural	1 839 130	1 654 676
Vacant land	698 214	605 988
Less: Income forgone	(1 954 658)	(1 860 249)
	<b>14 883 763</b>	<b>14 055 902</b>

Assessment rates are levied on the value of land and improvements. Valuations on land and buildings are performed every four years. The last valuation was done in 2012/2013 with effective date of the new General Valuation Roll being 01 July 2013. The municipality performed a supplementary valuation roll in 2015/16 which was implemented for Public Works properties which resulted to the high increase on the anticipated revenue on Property rates.

#### Valuations

Residential	439 650 000	439 650 000
Commercial	143 490 000	143 490 000
State	204 891 000	204 891 000
Municipal	25 545 000	25 545 000
Agricultural	492 575 000	492 575 000
Place of Worship (Church)	15 375 000	15 375 000
Vacant land	41 250 000	41 250 000
State owned land	120 000	120 000
	<b>1 362 896 000</b>	<b>1 362 896 000</b>

Valuations on land and buildings are performed every years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. Interest on outstanding balance is not charged as per council resolution.

Rebate is granted to businesses at 15%, vacant land at 10%. The properties under category Church, Municipal Properties, Communal land and NPO are 100% exempted in line with rates policy.

# EDUMBE LOCAL MUNICIPALITY

(Registration number KZN 261)

Trading as EDUMBE LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand

2017

2016

### 28. Government grants and subsidies

#### Operating grants

Equitable share	58 005 000	54 074 000
Finance Management Grant	1 499 704	1 885 547
Municipal Systems Improvement Grant	-	803 681
Extended Public Works Programme Grant	1 422 535	993 581
Subsidy Arts and Culture	1 168 077	1 179 315
Sportfield Maintenance Grant	-	74 149
KZN COGTA Grant	195 000	-
Government grant (operating) 7	-	1 583 369
	<b>62 290 316</b>	<b>60 393 642</b>

#### Capital grants

Municipal Infrastructure Grant	17 482 325	18 831 924
Integrated National Electrification Program	19 445 717	15 503 805
	<b>36 928 042</b>	<b>34 335 729</b>
	<b>99 218 358</b>	<b>94 729 371</b>

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members and to fund operations.

Total amount received by the municipality for the financial year under review for Equitable Share was R 57 512 000 (2016: R 54 074 000), and the grant was utilised as per the intended purpose. There was no amount which was withheld by National Treasury

#### Municipal Infrastructure Grant

Balance unspent at beginning of year	(1 471 243)	(209 319)
Current-year receipts	17 221 000	17 570 000
Conditions met - transferred to revenue	(16 243 870)	(18 831 924)
	<b>(494 113)</b>	<b>(1 471 243)</b>

Conditions still to be met - remain liabilities (see note 16).

The municipality spent 100% of the MIG allocation for 2016/17 financial year and the over-spending on the grant relates to the retentions withheld for the projects.

#### Municipal Systems Improvement Grant

Balance unspent at beginning of year	(21 739)	(348 058)
Current-year receipts	-	930 000
Conditions met - transferred to revenue	21 739	(603 681)
	<b>-</b>	<b>(21 739)</b>

Conditions still to be met - remain liabilities (see note 16).

The Municipal System Improvement grant was not allocated during the year (2016/17) and the over-expenditure incurred in 2015/16 was reallocated to other votes.

#### Finance Management Grant

Balance unspent at beginning of year	(400 296)	(314 749)
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<b>28. Government grants and subsidies (continued)</b>		
Current-year receipts	1 900 000	1 800 000
Conditions met - transferred to revenue	(1 499 704)	(1 885 547)
	-	(400 296)
Conditions still to be met - remain liabilities (see note 16).		
The municipality has overspent on the Municipal Finance Management grant due to the implementation of the Pastel Evolution Financial System.		
<b>Extended Public Works Programme Grant</b>		
Balance unspent at beginning of year	422 535	361 116
Current-year receipts	1 000 000	1 055 000
Conditions met - transferred to revenue	(1 422 535)	(993 581)
	-	422 535
Conditions still to be met - remain liabilities (see note 16).		
The allocation for 2016/17 was received and the municipality spend 100% of the allocation.		
<b>Sportfield Maintenance Grant</b>		
Balance unspent at beginning of year	75 122	149 271
Conditions met - transferred to revenue	(75 122)	(74 149)
	-	75 122
Conditions still to be met - remain liabilities (see note 16).		
No allocation for 2016/17 was received by the municipality but the municipality met the condition on the unspent amount from 2015/16 financial year.		
<b>Subsidy Arts and Culture</b>		
Balance unspent at beginning of year	530 120	657 435
Current-year receipts	1 073 000	1 052 000
Conditions met - transferred to revenue	(1 168 078)	(1 179 315)
	435 042	530 120
Conditions still to be met - remain liabilities (see note 16).		
Arts and Culture grant is used by libraries for the operations. The library services failed to implement their plans 100% which lead to the unspent grant. This was caused by the resignation of the Librarian and the municipality also awarded a bid to the supplier for the supply of Computers for library services and the service provider failed to deliver the correct goods which led to the cancellation of the appointment and it was late to engage the other service provider. The rollover application will be submitted for the unspent balance to be used as per the initial business plan submitted to the province.		
<b>Integrated National Electrification Program</b>		
Balance unspent at beginning of year	(82 934)	(2 579 129)
Current-year receipts	19 500 000	18 000 000
Conditions met - transferred to revenue	(19 445 716)	(15 503 805)
	(28 650)	(82 934)
Conditions still to be met - remain liabilities (see note 16).		

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### 28. Government grants and subsidies (continued)

The grant was 100% spent during the 2016/17 Financial Year.

#### KZN Cogta Massification Grant

Balance unspent at beginning of year

18 361

1 601 730

Current-year receipts

200 000

-

Conditions met - transferred to revenue

(195 000)

(1 583 369)

23 361

18 361

Conditions still to be met - remain liabilities (see note 16).

The electrification of Nkembeni Phase 1 (Mbizeni Area) has been completed (100%). Condition has been met. The municipality received an amount of R200 000 for the grant and the condition was 100% met as per the MOA with the department.

### 29. Fines

Traffic fines

1 303 500

3 570 515

Prepaid meter fines

877

17 912

Lost books fines

-

14

1 304 377

3 588 441

The fines not collected as at 30 June 2017 was R 892 342.45 as per schedule of fines issued. Based on the past experience and looking at the current year's collection on fines, 32% of the total traffic fines debt was not impaired in 2016/17.



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<b>30. Employee related costs</b>		
Basic	28 877 373	26 056 528
Bonus	2 150 857	2 322 140
Medical aid - company contributions	1 494 105	1 141 789
UIF	232 758	205 266
Defined contribution plans	4 566 873	4 097 002
Overtime payments	149 942	244 120
Long-service awards	628 903	26 241
Car allowance	2 157 872	2 053 010
Housing benefits and allowances	553 758	450 417
SALGBC	13 102	12 079
Cellphone Allowance	346 864	402 939
	<b>41 172 407</b>	<b>37 011 531</b>
<b>Remuneration of municipal manager</b>		
Annual Remuneration	699 691	639 709
Car Allowance	221 426	225 774
Performance Bonuses	-	83 178
Contributions to UIF, Medical and Pension Funds	98 724	54 276
Other	-	121 755
Cellphone Allowance	28 800	28 800
Housing Allowance	87 367	-
	<b>1 136 008</b>	<b>1 153 492</b>
The Municipal Manager, Mr TV Mkhize resigned from his position on 30 April 2017 and Mr RP Mnguni was seconded by Co-operative Governance and Traditional Affairs to Act as the Municipal Manager as from 15 May 2017.		
<b>Remuneration of chief finance officer</b>		
Annual Remuneration	573 157	524 721
Car Allowance	129 162	129 162
Performance Bonuses	-	56 508
Contributions to UIF, Medical and Pension Funds	153 380	155 165
Cellphone Allowance	22 800	22 800
	<b>878 499</b>	<b>888 356</b>
<b>Remuneration of directors infrastructure services</b>		
Annual Remuneration	350 738	103 719
Car Allowance	100 000	30 000
Contributions to UIF, Medical and Pension Funds	230 000	15 000
Cellphone Allowance	35 667	26 687
Other	158 295	25 000
	<b>874 700</b>	<b>200 406</b>
<b>Remuneration of director corporate services</b>		
Annual Remuneration	-	445 272
Car Allowance	-	137 183
Performance Bonuses	-	66 053
Contributions to UIF, Medical and Pension Funds	-	37 075
Housing Allowance	-	54 873
Other	-	16 802

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### 30. Employee related costs (continued)

Cellphone Allowance

- 20 900

- 778 158

Director Corporate services resigned in June 2016 and there was no employee appointed by the Council to Act in the position for the whole duration of the financial year.

### Remuneration of director community services

Annual Remuneration

37 485 449 818

Car Allowance

14 134 169 602

Performance Bonuses

- 35 095

Contributions to UIF, Medical and Pension Funds

787 9 438

Other

6 235 74 824

Cellphone Allowance

4 231 50 773

62 872 789 550

The contract for Director Community services expired on 31 July 2016 and there was no employee appointed by the Council to Act in the position for the whole duration of the financial year.

### Remuneration of director planning and development

Annual Remuneration

398 054 200 958

Car Allowance

90 000 50 000

Contributions to UIF, Medical and Pension Funds

79 032 744

Other

11 659 17 971

Housing Allowance

78 721 41 667

Cellphone Allowance

29 967 43 734

687 433 355 074

Director Planning resigned from the Municipality on 30 March 2016 and the Council did not appoint any employee to Act in the position for the whole duration left on the financial year.

### 31. Remuneration of councillors

Executive Mayor

801 761 824 318

Deputy Executive Mayor

379 084 374 506

Mayoral Committee Members

328 191 368 088

Speaker

633 279 660 886

Councillors

2 770 502 2 569 002

Councillors' pension contribution

8 114 45 561

MPAC Chairperson

315 256 374 503

5 236 167 5 216 844

The Mayor is full time and is provided with an office and secretarial support at the cost of the Council. The Mayor, Deputy Mayor and Speaker has use of a Council owned vehicle for official duties. The Mayor has two full time bodyguard and Deputy Mayor and Speaker have full time drivers each. The speaker of the Council is full time and is also provided with an office and secretarial support. The municipality have also provided MPAC chairperson with an office.

### 32. Depreciation and amortisation

Property, plant and equipment

9 919 409 8 878 980

Intangible assets

12 185 12 315

9 931 594 8 891 275

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Figures in Rand	2017	2016
<b>33. Finance costs</b>		
Finance Costs - Actuaries	800 000	546 000
Other interest paid	1 630 630	2 317 979
	<b>2 430 630</b>	<b>2 863 979</b>
Total finance costs is calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit.		
<b>34. Debt impairment</b>		
Debt impairment	8 471 917	4 243 821
<b>Provision for bad debt adjustment calculation</b>		
Opening debt provision	77 855 821	73 612 000
Less: Closing debt provision	(86 327 738)	(77 855 821)
	<b>(8 471 917)</b>	<b>(4 243 821)</b>
This adjustment is due to align the previous years provision for bad debts with the one for current year under review.		
<b>35. Bulk purchases</b>		
Electricity	18 648 374	16 679 087
Bulk purchases are in respect of electricity bill paid to Eskom.		
<b>36. Contracted services</b>		
Internal Audit unit	1 145 703	954 034
Security Services	7 010 256	2 593 243
	<b>8 155 959</b>	<b>3 547 277</b>

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	2017	2016
<b>37. General expenses</b>		
Aids Awareness	-	155 158
Advertising	274 681	333 373
Bank charges	44 395	45 616
Cleaning	127 162	37 616
Legal fees	906 594	2 532 418
Computer expenses	106 096	35 747
Consulting and professional fees	2 021 811	3 710 889
Communications	140 579	500 292
Settlement contingencies	-	3 160 805
Spluma Implementation	11 400	76 313
Employee Benefit Expenses	41 924	453 762
Consumables	47 501	118 400
Local Economic Development	-	504 113
Entertainment	-	74 130
Financial instruments - Fee expense	181 762	-
Youth and Sport Development	641 377	1 707 084
Landfile Site Provision Expense	174 986	68 434
Strategic Planning	143 534	143 218
Disaster Victims & Emergency Support	140 146	142 976
Insurance	282 009	905 553
Ward Committee Expenses	-	14 768
Community development and training	-	305 958
Zoning of Land	126 643	1 421 733
IT expenses	2 800	175 400
Commission expense for Sales (Hexing)	626 520	-
Revenue Enhancement Strategy	48 900	107 100
Membership levies	505 857	522 465
Fuel and oil	662 051	1 132 992
Printing and stationery	115 930	246 409
Road Transport Quality System	15 024	26 275
Protective clothing	-	330 505
Secretarial fees	153 900	-
Software expenses	21 800	-
Indigent Burial	65 290	85 890
Telephone and fax	435 192	450 759
Training	219 423	838 921
Travel - local	1 231 537	1 531 042
HR Engineering and Staff Establishment	-	441 509
Social Cohesion	186 700	298 414
Tourism development	-	625 805
Poverty Alleviation	312 745	854 846
Supplementary Valuation Roll	149 284	309 030
Operating leases	1 334 885	1 420 499
Refreshments	1 029	27 194
Leave	575 704	592 344
Other Expenses	625 229	662 794
Busary Scheme	-	603 600
Water	-	19 833
	<b>12 702 400</b>	<b>27 751 982</b>
<b>38. Auditors' remuneration</b>		
External Audit Fees - Auditor-General	1 475 383	1 366 922

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<b>39. Operating lease</b>		
Operating lease payments represent rentals payable by the municipality for the photocopiers. Leases are normally negotiated for an average term of three years. The municipality entered into a new lease for the photocopiers with Biztec from 2015/16 financial year. The municipality also entered to the lease agreement with Afrirent for the lease of vehicles from 2015/16 financial year for the period of three months.		
<b>Operating lease as a lessee</b>		
Within one year	3 070 675	4 164 186
In second to fifth year inclusive	2 805 166	5 875 841
	<b>5 875 841</b>	<b>10 040 027</b>
Certain of the municipality's property is leased to Mondi is held to generate rental income. Rental of property is expected to generate rental yields of R 828.08 per hectare (Ha) with an escalation average linked to CPI plus PPI per annum on an ongoing basis. Lease agreements are non-cancellable and have terms from 3 to 6 years and the lease signed by Mondi was for 20 years. CPI used for calculation is as per trading economic up to 2020 thereafter a 0.1% projection was done.		
<b>Operating Leases - as income</b>		
Within one year	1 160 269	1 169 441
In second to fifth year inclusive	4 815 342	5 451 607
After five years	15 077 034	21 504 165
	<b>21 052 645</b>	<b>28 125 213</b>
<b>40. Operating Grant Expenses</b>		
<b>Operating Grant Expenses</b>		
Municipal Systems Improvement Grant	-	650 625
Arts and Culture Subsidy	918 362	957 142
Municipal Infrastructure Grant (operating expenses)	1 037 032	944 631
Municipal Finance Management Grant	1 582 235	1 793 246
EPWP Grant	1 641 956	997 154
Sport Development Subsidy	523	74 259
KZN Cogta Grant (IDP 4th Generation)	171 053	-
	<b>5 351 161</b>	<b>5 417 057</b>
<b>41. Cash generated from operations</b>		
Surplus	20 318 668	15 034 280
<b>Adjustments for:</b>		
Depreciation and amortisation	9 931 594	8 891 275
Gain on sale of assets and liabilities	2 021 172	177 279
Adjustment for Prior Year Errors	-	5 817 782
Impairment deficit	-	2 062 153
Debt impairment	8 471 917	4 243 821
Movements in retirement benefit assets and liabilities	2 059 000	1 802 000
Movements in provisions	174 987	(2 523 514)
Movement in tax receivable and payable	(259 697)	(841 389)
<b>Changes in working capital:</b>		
Inventories	30 244	152 085
Receivables from exchange transactions	(1 351 439)	-
Consumer debtors	(8 471 917)	(4 627 110)
Other receivables from non-exchange transactions	(4 265 052)	(8 490 625)
Payables from exchange transactions	3 300 585	14 438 556
Unspent conditional grants and receipts	412 264	(1 723 414)
Consumer deposits	5 375	2 394
	<b>32 377 701</b>	<b>34 415 573</b>

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#### 42. Commitments

##### Authorised capital expenditure

##### Already contracted for but not provided for

- Property, plant and equipment

3 760 206	180 337
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##### Total capital commitments

##### Already contracted for but not provided for

3 760 206	180 337
-----------	---------

The committed expenditure relates to work-in-progress and future projects which will be constructed in various wards and will be financed by Municipal Infrastructure Grant and Intergrated National Electrification Program and internally generated etc.

##### Total commitments

##### Total commitments

##### Authorised capital expenditure

3 760 206	180 337
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This committed expenditure relates to property and will be financed by grant funding from Department of Co-operative Governance and Traditional Affairs and Department of Energy irrespectively with other portion funded by funds internally generated.



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### 43. Contingencies

Litigation is in the process against the municipality relating to a dispute with a competitor who alleges that the municipality has infringed patents and is seeking damages. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next two years.

#### Guarantee with Eskom

The municipality have a call account which have a portion of guarantee withheld by the bank for the Eskom licence guarantee. The amount for the guarantee is R530 000

530 000

530 000

#### Claim for damages - AMT Putini

Mr AMT Putini instituted proceedings in the bargaining council challenging his suspension by Council in 2010. The award was for the municipality to pay the claimant an amount of R480 305,46 excluding the legal fees. The council have challenged the award and currently the Council's attorneys are dealing with the matter. Should the council be unsuccessful in defending the claim, there is a possibility that the claim will be settled at R480 305,46 plus an estimated amount of attorneys of the Council of R150 000 and the claimant's attorneys fees estimated at R150 000. Therefore total amount of R780 305,46 may be payable.

780 305

780 305

#### MSN Investments

The Municipality was being sued by MSN Investment claiming that he was appointed by the then Acting Municipal Manager verbally to continue working for the council for the finalisation of the Annual Financial Statements. MSN Investment is claiming R78 906 for work performed. The legal costs estimated for the case will be R50 000.

128 906

128 906

#### Ihlathi Transport CC

The municipality is being sued by Ihlathi Transport CC for the service rendered to the municipality. Ihlathi transport is demanding outstanding payment R1,9 million from the municipality for services rendered. Ihlathi Transport CC has not issued summons but the matter has been referred to the court. The estimated legal fees are R100 000.

2 010 000

2 000 000

#### Swatilelihle

Swatilelihle was appointed by the municipality for the construction of Jourbet Street in PaulPietersburg Town. The company executed the work and was paid for the work done. They are now claiming that they did not make any profit from the contract due to some instructions on site by the municipality and other site issues and they are suing the municipality for an amount of R3,8 million. Swatilelihle is suing the municipality for an amount of R3 800 448 for disputed unpaid invoices arising from a contract. The contingent liability includes legal costs for plaintiff of R100 000 and the legal cost for the municipality of R150 000.

4 050 448

4 050 448

#### Lime Distributors

Lime Distributors is suing the municipality for unpaid invoices for goods delivered in terms of the Cession Agreement with Swatilelihle. Lime Distributors is suing the municipality for an amount of R223 258. The contingent liability includes legal costs for plaintiff of R100 000 and the legal cost for the municipality of R100 000.

423 258

423 258

#### Natal Richard Bay Hire CC

Natal Richard Bay Hire CC is suing the municipality for R411 279 together with interest for failing to pay monies due to it in terms of the contract. The contingent liability includes legal costs for plaintiff of R200 000 and the legal cost for the municipality of R200 000.

811 279

811 279

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### 44. Related parties

#### Related party transactions

##### Trade Payables

Zululand District Municipality	14 222	26 241
Isulami Trading and Project	1 458 371	1 205 634
Sizoshubeka Trading Services CC	-	37 500
Mbalana Catering and Suppliers	9 750	92 990

##### Remuneration of Councillors and key management

Forest Pro	20 032	35 956
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Mr Ronnie Gevers is a councillor at eDumbe Local Municipality and has a company which traded with the municipality during the year under review. The name of the company is Forest Pro.

##### Trade Receivables

Forest Pro	112	-
Zululand District Municipality	596 559	472 470

Isulami Trading and Projects and Mbalana Catering and Suppliers both traded with the Municipality during the year under review and the spouse of the Directors of both companies are in the service of the state employed by eDumbe Local Municipality (Local Government). The employee Mrs MC Nkosi who is the Procurement Practitioner and Mrs ZA Nkosi, Registry officer are the spouse to the Isulami Trading and Projects and Mbalana Catering and Suppliers directors.

Amount included on general expenses relates to related party for ZDM Shared Services for planning departments and other departments with the Zululand District Municipality. The other amount included on the General expenses is the amount paid to Zululand District Municipality for water accounts.

Sizoshubeka Trading Services CC has traded with the Municipality during the year under review and the relative of the Director is in the service of the state employed by eDumbe Local Municipality (Local Government).

### 45. Prior-period Errors/ Adjustments

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice and the aggregate effect of the prior year adjustments in the annual financial statements for the period ended 31 June 2016.

Presented below are those items contained in the statement of financial position and statement of financial performance that have been affected by prior-period adjustments. The journals were processed direct to the accumulated surplus to correct the individual accounts.

The correction of the error(s) results in adjustments as follows:

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<b>45. Prior-period Errors/ Adjustments (continued)</b>		
<b>Property Plant and Equipment</b>		
Leases were incorrectly classified as Finance Lease in 2015/16 financial year and there were assets which were identified during the verifications which were not accounted for previous years.	-	(1 777 880)
<b>Receivables from exchanged transactions</b>		
The impairment of the debtors were incorrectly calculated in 2015/16 financial year	-	3 848 693
<b>Receivables from non-exchanged transactions</b>		
The impairment of the debtors were incorrectly calculated in 2015/16 financial year	-	23 304
<b>Finance lease obligations</b>		
The leases were incorrectly classified as Finance lease in 2015/16 financial year and they have been reversed	-	(6 457 457)
<b>Depreciation and Amortisation</b>		
The correction of Property Plant and Equipment (finance leases) and new assets identified during the verification affected the depreciation amount disclosed previous year.	-	(2 091 000)
<b>General Expenses</b>		
The correction of on the leases from Finance lease to operating lease affected the general expenses	-	637 077
<b>Operating lease</b>		
The leases were incorrectly classified as finance lease previous year and error has been corrected.	-	2 121 585
<b>Finance Costs</b>		
Leases were incorrectly classified as Finance lease previous year and the correction also affected the finance costs.	-	(590 302)
<b>Debt impairment</b>		
The debt impairment calculations for 2015/16 financial year was incorrectly calculated.	-	(3 871 997)

## 46. Risk management

### Financial risk management

The municipality's finance function monitors and manages the financial risks relating to the operations of the municipality. These risks include credit risk, liquidity risk, market risk relating interest rate risk.

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### 46. Risk management (continued)

#### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	2017	2016
Trade and other payables	39 672 843	36 372 258

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Except as detailed below, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The maximum credit risk exposure in respect of the relevant financial instruments is as follows:

Financial instrument	2017	2016
Cash and Cash Equivalent	565 182	719 257
Trade and other receivables	19 457 644	13 830 556
VAT receivables	765 141	505 444

#### Market risk

##### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

Occasionally the municipality also enters into fixed-to-floating interest rate swaps to hedge the fair value interest rate risk arising where it has borrowed at fixed rates in excess of the 60% target.

### 47. Going concern

We draw attention to the fact that at 30 June 2017, the municipality had accumulated surplus of R 227 683 529 and that the municipality's total current liabilities exceed its current assets by R 24 567 848. The reason for the current liabilities to exceed the current assets is the collection rate of the municipality which is not favourable at all. It's makes the municipality fails to pay its debts as they become due which increase the current liabilities and the outstanding debtors end up being impaired.

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### 47. Going concern (continued)

The cash flow of the municipality remains a huge challenge which are caused by number of factors which include but not limited to debt collection rate which was very low, conditional grants could not be backed up by cash in the bank, drastic increase on contracted services more especially Security Services which is not backed by revenue and high percentage of employee costs than allowed percentage as per MFMA circular. The municipality was also struck by the drought which affected the consumption of electricity hugely and the anticipated revenue on electricity was affected and the high rate of tempering with meter by electricity users was also a huge challenge faced by the municipality during the year.

The liquidity ratio for the municipality is below one which means the municipality is not able to pay its creditors as they fall due and the evidence of that is the increase on the trade payables which an amount of R39 million of payables as at 30 June 2017, however, because at year end, the municipality is in a net asset position, the municipality is deemed to be a going concern. The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. This is further mitigated by the fact that National Treasury will still be funding municipality activities, with no evidence of intention to withdraw financial support.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors which include the assets and liability of the municipality. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the subordination agreement referred to in notes of these annual financial statements will remain in force for so long as it takes to restore the solvency of the municipality. The management has also prepared an assessment of going concern which is an annexure to the Annual Financial Statement of 2016/17 Financial Year.

### 48. Unauthorised expenditure

Opening balance	36 171 566	13 873 202
Unauthorised expenditure - Current year	9 702 358	22 298 364
	<b>45 873 924</b>	<b>36 171 566</b>

The unauthorised expenditure relates to expenditure incurred that exceeded the budget. The municipality incurred unauthorised expenditure for 2016/17 financial year on Non-Cash items (Depreciation, Bad debts provision, Actuaries, Loss on disposal of assets) and other general expenses. The item to Council will be prepared for Council to consider providing for the expenditure on the budget during Adjustment Budget and also doing virement as they were savings from other votes.

### 49. Fruitless and wasteful expenditure

Opening balance	4 306 323	1 810 876
Eskom and SARS Interest and Penalties	1 654 307	1 309 368
Settlement interest	-	1 186 079
	<b>5 960 630</b>	<b>4 306 323</b>

An amount of R 4 306 323 was referred to Council for investigation then the investigation report will be tabled to Council to determine if there is any amounts to be recovered from responsible people and condone those whom the Council feel is irrecoverable in terms of section 32 of the MFMA the letter will be sent to National Treasury as per section 170 of the MFMA for condonation. The current year's fruitless and wasteful expenditure will also be sent to Council for investigation.

The fruitless and wasteful expenditure incurred during the year was for the interest raised by Eskom, SARS, Pension fund and other service providers for non payments. The cash flow challenges faced by the municipality was the root cause for failure to settle the debts within the prescribed period as per section 65 of the MFMA.



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#### 50. Irregular expenditure

Opening balance	59 069 273	42 154 895
Add: Irregular Expenditure - current year	10 748 864	16 914 378
	<b>69 818 137</b>	<b>59 069 273</b>

#### Analysis of expenditure awaiting condonation per age classification

Current year	10 748 864	16 914 378
Prior years	59 069 273	42 154 895
	<b>69 818 137</b>	<b>59 069 273</b>

An amount of R14 261 653 was incurred by the municipality for the Electrification Projects. The appointment was made to BTMN Engineers on a Turn-Key basis however the appointment was not in line with SCM Regulation because the Tender process was not followed they were appointed on risk. The expenditure for BTMN will remain irregular for this contract until it is finished. The expenditure amounting to R 1 498 436 was irregular due to irregularities identified on appointments made to the services providers which includes failure to obtain three quotations, service provider being in the service of the state, failure to implement the local content requirement and other SCM processes.

An amount of R8 747 361 has been written off by Council as irrecoverable in terms of section 32 of the MFMA and awaiting condonation by National Treasury as per section 170 of the MFMA. The other balance of irregular expenditure is still to be investigated by Council committee which will then conclude whether the amount is recoverable or irrecoverable and whether it will be recovered or to be written off as well as determining if there are any criminal or disciplinary steps will be taken.

The irregular expenditure for the year, 2016/17 financial year relates to the contravention with Supply Chain Management policy of the municipality and regulations. The municipality appointed Mzimkhulu Construction for the construction of KwaVova Hall without following supply chain process. The company was not appointed through bidding process and section 32 was also not implemented it was a mere fact that they did good work in one of the similar project during the year and KwaVova Community Hall had challenges which led to appointed contractor leaving the site. An amount of R1 063 884 was paid to the contractor (Mzimkhulu) which is regarded as irregular.

BTMN Engineers was appointed through risk on a turnkey base without following SCM process and the expenditure for this company was also irregular last year and this was continuation of work done from previous years. An amount of R626 520 is also regarded as irregular since the appointment of smart metering project service provider did not take into account PPPFA and local content as per the SCM regulations requirements.

#### 51. Additional disclosure in terms of Municipal Finance Management Act

##### Contributions to organised local government

Opening balance	2 129 954	1 624 376
Current year subscription / fee	507 338	505 578
Amount paid - current year	(521 857)	-
	<b>2 115 435</b>	<b>2 129 954</b>

The amount is included accruals raised for 2016/2017 financial year for the membership to SALGA for the municipality.

##### Audit fees

Opening balance	13 132	-
Current year subscription / fee	1 475 383	1 366 922
Amount paid - current year	(1 068 382)	(1 353 790)
Amount paid - previous years	(13 132)	-
	<b>407 001</b>	<b>13 132</b>



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<b>51. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>PAYE and UIF</b>		
Opening balance	2 404 614	1 338 448
Current year subscription / fee	5 028 387	6 906 722
Amount paid - current year	(3 519 443)	(4 502 108)
Amount paid - previous years	(2 404 614)	(1 338 448)
	<b>1 508 944</b>	<b>2 404 614</b>

The balance includes PAYE,SDL and UIF deducted from April 2017, May 2017 and June 2017 payroll. These amounts were paid during July 2017. The amount of R 1 508 943.78 was not paid as at 30 June 2017 and it was part of the accrual raised in 2016/2017.- R 1 068 381.77

#### Pension and Medical Aid Deductions

Opening balance	2 299 465	430 726
Current year subscription / fee	6 259 188	8 339 978
Amount paid - current year	(3 271 563)	(6 040 513)
Amount paid - previous years	(2 299 465)	(430 726)
	<b>2 987 625</b>	<b>2 299 465</b>

The unpaid balance represents pension and medical aid contributions deducted from employees as at 30 June 2017 payroll as well as Council's contributions to pension and medical funds.

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2017:

During the year there was no Councillors' who had accounts in arrears for more than 90 days.

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### 52. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the Council and includes a note to the annual financial statements.

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the Council who considered them and subsequently approved the deviation from the normal supply chain management regulations.

#### Heading

Accommodation expenses	36 000	341 638
Roga Motors	606 594	1 060 416
Bell Equipment	66 254	252 165
Advertising	415 326	456 512
Anesco Toyota	56 582	59 838
Lisulezazi Trading Enterprise	-	200 000
TSS Engineering/ Elolam Manufacturing	306 377	182 158
OTSG Solution	-	86 400
South African Post Office	-	15 675
Sbahle Fire Services	-	75 383
JL Multisales and Services	-	53 883
IMFO	61 919	5 000
Autobahn Tyres	10 200	-
Dumbe Funeral Services	17 620	-
SALGA	16 000	-
ICE Promotions	97 235	-
Other minor breach	193 102	-
	<b>1 883 209</b>	<b>2 789 068</b>

#### Accommodation Expenses

The municipality could not be able to obtain 3 quotation on the accomodation expenses due to the venues (location) of the meetings attended by the municipal delegates as well as the condition of the hotels. The other expenses are minor breaches where three quotations were not obtained

36 000 341 638

#### Roga Motors

The municipality engaged with the garage to provide the petrol as and when required. Only garage agreed to help the municipality with Petrol.

606 594 1 060 416

#### Bell Equipment

The municipality bought Bell Equipment in 2011 and the municipality is currently utilising the services for Bell Equipment for servicing of the equipment.

66 254 252 165

#### Advertising

The municipality is currently using Isolezwe as the advertising newspaper due to the fact that they advertise everyday and it is frequently used by the community members around eDumbe and other areas. The other expense on advertising was on the advert for posts for section 57 employees which require municipalities to advertise on National newspaper and Sunday Times is therefore used since it is normally used by most municipalities and Government departments.

415 326 456 512

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<b>52. Deviation from supply chain management regulations (continued)</b>		
<b>Anesco Toyota</b>		
The expenditure was incurred for the service of Toyota vehicles which was sent straight to Anesco as we only have one Toyota garage in town. The other expenditure was incurred when strip and quote repairs was done on machines which are services at Toyota.	56 582	59 838
<b>Lisulezazi Trading</b>		
The advert for the newsletter and other communication activities was issued and only two quotations were received by the municipality. Due to the fact the process was fully followed by the municipality but three quotes were not obtained as per Municipal SCM Regulations, the municipality continued with the appointment and implemented Regulation 36 of the Municipal SCM Regulations which allows deviation for minor breach.	-	200 000
<b>South African Post Office</b>		
Sole supplier for postal stamp used by the municipality to post letter to consumers and other letters to other organs of state.	-	15 675
<b>TSS Engineering/ Elolam Manufacturing</b>		
It was an emergency due to break down of electrical transformer. During the year the municipality utilised the services for Elolam Manufacturing for the same service provided for by TSS Engineering	306 377	182 158
<b>OTSG Solution</b>		
The advert for the maintenance of municipal website was issued and only two quotations were received by the municipality. Due to the fact the process was fully followed by the municipality but three quotes were not obtained as per Municipal SCM Regulations, the municipality continued with the appointment and implemented Regulation 36 of the Municipal SCM Regulations which allows deviation for minor breach.	-	86 400
<b>Formal Written Price Quotations</b>		
Formal written Price quotation was obtained by the municipality however only 1 service provider who responded and the municipality opted to continue with the process and the deviation for minor breach because only 1 quote received instead of three even though the process was correctly followed. The amount was for Sbahle Fire Services R75 383 and JL Multisales and services R53 883 in 2015/16 financial year. In 2016/17 this include Ice Promotions (R97 235), Salga (R16 000), Autobahn Tyres (R10 200) and other expenses	316 537	129 266
<b>IMFO</b>		
The IMFO conference is only provided by sole supplier which is IMFO.	61 919	5 000
<b>Dumbe Funeral Services</b>		
The municipality assisted local community for burial services for indigent households and the sourcing of quotations remains a problem for this transaction.	17 620	-

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<b>53. Distribution losses</b>		
<b>Electricity</b>		
Number of consumers(Residential and Commercial)	2 406	2 236
Units purchased (kwh)	18 391 010	17 862 555
Units sold (Total)	9 116 915	10 885 067
	9 274 095	6 977 488
Units own use (Municipal Building)	214 494	202 353
<b>Units lost in Distribution</b>	<b>9 059 601</b>	<b>6 775 135</b>
	49 %	38 %
<b>Percentage lost distribution</b>		
Total cost (Expense)	10 100 772	9 098 454
Cost of units purchased	0.54	0.5
	R 4 935 670	R 3 422 121

